Legislative Economic Briefing

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Overview

• US economy has momentum at the start of 2017
  – Rebound in energy-sector capital spending
  – Strong gains in single-family housing permits
  – Orders and shipments of core capital goods are growing again
  – January jobs gains were much improved
  – Inflation is picking up – signaling improved growth in the economy
  – One temporary headwind however is continuation of inventory drawdown in the first half of the year

• Signals are more mixed in Mississippi
  – Employment slowed considerably in the 4th quarter
  – Income growth appears to have likewise slowed in the 4th quarter
  – Transfers to GF have been weak, especially sales & income tax which are perhaps the revenue sources most closely connected to economic activity
  – Building permits are improving
  – Manufacturing workweek length remains high
  – Initial unemployment claims continue to decline
Growth in Real GDP in US

The swing from 3.5% in the 3rd qtr to 1.9% in the 4th was due largely to soybean export volatility. Without this volatility, growth would have been around 2.6% in the 3rd and 4th qtr.
US Real GDP Growth is Slowing

Growth during the last expansion (1992-2007) was 3.2%
Average growth between 2010-2016 period was 2.1%
We have not experienced a 3.0% growth rate since 2005

Reasons: increased interdependence of international economies, high debt levels, aging population/demographic trends.

Implications: more frequent recessions.
US Housing Trends

73% decline in # of Units between 2005 & 2009
2016 level is 43% below peak
Weak recovery has been in single family units
Tremendous improvement in 4th qtr for this segment

Both series are below pre-recession levels
New home prices are above peak, Existing home prices are not; there remains a large inventory relative to household formation.
Housing Trends

• People are renting rather than buying
• Reflects modest income growth
• Household formation is down
  – During boom years young adults were buying
  – Fueled by stronger income growth & easy mortgages
  – After bust young adults started living with others
    • Due in part to high student load debt & decreased job opportunities
• At some point household formation will again track population growth & boost housing
US Jobs Added By Month

Job growth improved between 2010-2014 but has declined in 2015 & 2016

Job growth weakened toward the end of 2016 but improved in January
Institute For Supply Management Indices

An Index above 50 indicates expansion, below 50 a contraction

MFG Index has shown remarkable improvement. Both series are in a strong position which encourages optimism.
Retail sales in 2016 were low compared to the fairly modest growth of the past few years. Christmas sales struggled to meet expectations reaching near or only slightly above last year. This is a bit surprising given the increased optimism. Wage growth, while improving with a tightening labor force, remains relatively subdued.
After falling dramatically in mid-2014 prices stabilized in late 2016. We have seen a slight uptick in recent weeks, but prices remain low for relative to the past decade.
Oil prices are expected to rise gradually. Not expected to reach $100 per barrel until 2024-2025. Rig count has surged 76% since May suggesting a sharp rebound in energy sector investment.
US Light Vehicle Sales

Sales have stabilized at about 17.5 million units.

Average sales for 2013 -- 15.5 million units
Average sales for 2014 -- 16.5 million units
Average Sales for 2015 -- 17.4 million units
Average Sales for 2016 -- 17.5 million units

Average sales for 2013 -- 15.5 million units
Average sales for 2014 -- 16.5 million units
Average Sales for 2015 -- 17.4 million units
Average Sales for 2016 -- 17.5 million units
US Consumer Sentiment

- **Annual Average**
  - Sentiment returned to the Pre-recession level in 2015.

- **Monthly**
  - January 2017 Index is at the highest level since January 2004. The Index was very close to this level in January 2015, but weakened over the course of the year.
Small Businesses confidence has risen sharply in recent months, reaching the highest level since 2004 fueled by the prospects of lower taxes and reduced regulations.
Gray Areas Represent National Recessions

Declines are characteristic of recessions. While the series weakened in 2015 & 2016, it remains well into positive territory.
Despite gains in recent years, wage growth remains well below pre-recession levels.
Population is indexed to 1960 to allow all three regions to appear on the same graph. Comparisons can then be made by the slope of each line. Both the US and SE are growing at a much faster pace than MS. Current projections show this trend continuing for the foreseeable future.
After revisions to the data and methodology, 2015 Real GDP was below the 2008 level.

BEA’s current estimates for 2016 show a rebound in Real GDP growth.
The Mississippi Index of Coincident Indicators reflects economic conditions existing in a given month. The index is constructed by the Federal Reserve Bank of Philadelphia and re-indexed to 2004. The Index is based on changes in nonfarm employment, the unemployment rate, average manufacturing workweek length and wage and salary disbursements.

The MSCI stalled in 2016. The index is largely an indicator of the labor market for the state.
The Mississippi Index of Leading Indicators reflects economic conditions expected for the coming months. The index is constructed by the University Research Center and indexed to 2004. There are 7 components of the Index: MS Initial Unemployment Claims; MS Income Tax Withholdings; MS Value of Residential Building Permits; MS MFG Employment Intensity Index; ISM Index of US MFG Activity; US Consumer Expectations Index and US Retail Sales.

The MSLI declined in the summer of 2016 before modestly improving in the last quarter. Much of this improvement can be attributed to national indicators rather than MS. We then do not expect any significant change in the State’s economy in the short-term.
The unemployment rate has fallen since reaching a peak during the depth of the recession and is below the pre-recession low.
The annual average unemployment rate for 2016 was 5.7%. The “real” unemployment rate was 10.9%. The “real” unemployment rate adds discouraged and other marginally attached workers and those working part time for economic reasons.

The “real” unemployment rate combines the two series in the chart.
Claims have trended down and are at historically low levels. Claims fell in the last quarter. Declining claims mean fewer lay-offs.
Workforce Participation Rate, 2016

Percentage of Population 16 and over either working or actively looking for a job

Has the second lowest workforce participation rate among the states. Only West Virginia is lower.
Workforce Participation Trends

• Participation has fallen in recent years for both the US and MS
• The gap between MS & US participation rate is highest among 16-19 year-olds & 45-65 year-olds
• MS lower participation rate due in a large part to higher incidence of disability
  – Census shows 10% of working age population in MS is disabled & not in the work force; in the US the rate is 6%. The state’s higher rate translates into over 70 thousand people.
• MS participation rate exceeds that of the US for 35-44 year-old women; only category where this is the case
• See appendix for charts reflecting the above as well as other trends
Mississippi was not hit as hard in the recession as other states. However, the state’s recovery has been much slower. MS’s slower growth persisted into 2016.
Employment Relative to Pre-Recession

December 2016 as a Percentage Above (Below) December 2007

MS is one of 8 states where the December 2016 employment was below that of December 2007. States rank from a high of 20.5% above to a low of 5.6 below. MS is 2.3% below.
Annual Average Nonfarm Employment, 1950-2016

MS grew at a relatively steady pace prior to 2000. Since 2000 the state has struggled to gain momentum or keep pace with the Nation. The Nation has especially outpaced the state since the 2008 recession.
After fairly consistent gain in employment over the previous two years, employment weakened substantially in late 2016. Average annual growth for 2016 was 0.6%, half of the 1.2% growth observed in 2015. Growth for 2014 was 0.9%.
MS's slow growth over the past two decades has coincided with a movement away from manufacturing. That shift began in the 90s but was less apparent due to growth in the casino industry. More people work in Government than any other major sector which has shown no upward momentum since the Great Recession.
Where are the Jobs?

Mississippi added an average 7,358 jobs in 2016 over 2015.
Employment Gained (Lost) By County, 2015-2016

- Greater than 500
- 251 to 500
- Up to 250
- Decline
- No change
MS Residential Building Permits

Number of Units

Graph may understate building activity as permits are not required in the county.

Between 2007 and 2011 there was a 73% decline in activity. Despite 5 years of gain, we remain 56% below Peak.

The momentum of 2015 did not continue into 2016. Permits fell through much of the year before improving in the last quarter.
Employment improved in much of 2016 but fell sharply in the last quarter. After strong growth in the 90s, employment has generally trended downward. The notable exceptions are the period following Katrina & during large projects of 2013-2014.
Much of the growth that took place in 2015 disappeared in 2016. The state ended the year with a substantial decline in December.

MFG employment generally declined between 1994 and 2010. Since 2010 the state has experienced modest gains. In 2016, manufacturing employment rose 0.8% or 1,100 jobs.
Despite a slowdown during much of 2016, workweek length ended the year on a strong note.

Workweek length has been especially strong in recent years.
The two series generally move together. The withholdings data are more volatile but are more timely. For the past couple of years BEA series has indicated stronger income growth. Both series show gradual improvement in 2015, which peaked in the 1st qtr of 2016. Withholdings show a significant slowdown in 4th qtr of 2016.
Transfers to the General Fund From Sales Tax Collections, by Qtr

Growth in FY 2015: 4.1%; in 2016: 1.4% in FY 2017 through January: -1.2%. This was largely due to a very weak 1st qtr (-3.5%); the 2nd qtr was improved but modest (1.3%). January was a decline of 3%
Transfers to the General Fund From Personal Income Tax Collections, by Qtr

Growth in FY 2015: 4.6%; in 2016: 1.5%; FY 2017 transfers are essentially flat with a decline of -0.1%. January was an improvement with a gain of 4.1%
Transfers to the General Fund

- Additional Transfers from settlements, WCSR Fund, budget reduction, etc., Left Axis
- Transfers from DOR and "Other than DOR" Left Axis
- Y/Y % Chg in Tota GF, Right Axis

[Bar chart showing transfers to the General Fund from 2003 to 2018]
Despite Sluggishness, MS Economy is Expanding: Real Income Less Transfer Payments

A negative Y/Y growth in real Income less transfer payments is historically a good indication of contracting economy. This was seen in the great recession and again in 2013 and 2014. The series is positive in 2016 and stronger than in 2015.
The US economy has begun 2017 on a strong note. There has been a sharp rebound in energy-sector capital spending, improved housing market, high levels of optimism, increased orders and shipment of nondefense capital goods; and signs of rising price inflation. Early 2017 may still feel the affects of inventory correction, but this should dissipate in the second half.
Growth In Real MS GDP
Historical and University Research Center Projections

The growth in 2016 reflects BEA’s preliminary estimate for the first 3 quarters of 2016. These estimates reflect a 2.6% growth in 2016 through the 3rd qtr. We believe growth slowed to a 1.4% Y/Y growth in the 4th qtr.

Much of the growth in 2016 was due to a surge in the ag sector which was primarily in the first half of the year. Growth was more widely dispersed in the 3rd qtr. Growth in 2017 & 2018 is more modest but reflects broader participation.
Recap:

• US Economy has momentum in 2017
  – Risk of recession remains low

• MS has struggled since the great Recession.
  – 2016 is the 1st time the state has experienced 2 years of consecutive growth since the recession
  – The strong headline growth of 2016 was driven by ag volatility which will shave off growth in 2017
  – Growth in 2017 however will be more widespread and will continue into 2018 at a modest pace.

• Despite a modest forecast, revenues have disappointed in FY 2017.
Per Capita Personal Income

2015

Per capita income is total personal income divided by total population.

February 2017
MS University Research Center, IHL
Per Capita Personal Income
Adjusted for Cost of Living, 2015

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<tr>
<th>State</th>
<th>Per Capita Income</th>
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<td>Connecticut</td>
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Median Household Income

2015

Median household income is the level of income at which 50% of households are above and 50% are below.
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40.6% of Income in MS comes from the Government. 26.3 percent is from transfer payments and 14.4% is from government earnings. Only WV & NM are more dependent on the government. MS has the highest share of income from transfer payments. These sources tend to grow slow and in the case of earnings have decreased in recent years.
Workforce Participation by Age, 2016

The larger gap is due in part to higher incidence of disability.
Workforce Participation, Men

MS-US Gap in Workforce Participation Rate, Men
Workforce Participation, Women

MS-US Gap in Workforce Participation Rate, Women
Workforce Participation In MS, 2016

By Gender and Age

- The participation rate is higher for men for all age cohorts.

By Race and Gender

- There is very little difference between white and nonwhite. The lowest participation rate is among white women.